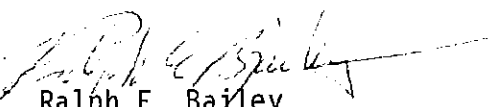


THE NATIONAL PETROLEUM COUNCIL

I hereby certify that this transcript constitutes an accurate record of the meeting of the National Petroleum Council on February 24, 1987.


Ralph E. Bailey
Chairman

3-25-87
Date

1 UNITED STATES DEPARTMENT OF ENERGY

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4 Meeting of the :
5 NATIONAL PETROLEUM COUNCIL :
6 - - - - -X

7
8 Dolley Madison Ballroom
9 The Madison Hotel
10 Fifteenth & M Streets, N.W.
11 Washington, D.C.

12 Tuesday,
13 February 24, 1987

14 The meeting was convened at 10:00 a.m.

15 RALPH E. BAILEY, Chairman, presiding.

16 APPEARANCES:

17 Charles E. Shultz, Chairman
18 Coordinating Subcommittee

19 Honorable John S. Herrington,
20 Secretary of Energy

21 A.V. Jones, Jr., Chairman
22 Agenda Committee

23 John R. Hall, Chairman
24 Finance Committee

25 Collis P. Chandler, Jr., Chairman
Nominating Committee

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on U.S. Oil and Gas Outlook

Adopted by the Council

Report of the Agenda Committee

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Report of the Nominating Committee

Adopted by the Council

P R O C E E D I N G S

CHAIRMAN BAILEY: Good morning, Ladies and Gentlemen. Will you find your seats please? The ninety-second meeting of the National Petroleum Council will please come to order.

Ladies and gentlemen, you have in front of you a copy of this morning's agenda and, as usual, we have a very good turnout. I suggest that we dispense with the calling of the roll and, if there's no objection, the check-in out in the Executive Chamber One will serve as the official attendance record of this meeting. If you didn't check-in out there please do so, if you will, before you leave.

Now, I would like to introduce the persons seated at the head table. On my far left is Ed Cox, Vice Chairman of the Council. On my far right is Marshall Nichols, the Executive Director of the Council. Next to Marshall is the Honorable William F. Martin, Deputy Secretary of Energy.

We are pleased that Secretary Martin has joined with us this morning. Secretary Herrington is delayed because of some other business; some of which you might know about. But, he will be here a little later on and we'll be hearing about him -- from him.

As you know, Secretary Martin, the Council has under consideration the final report of the Committee on U.S. Oil and Gas Outlook. Unfortunately, Jim Ketelsen who chaired

1 the Committee is unable to present the report this morning.
2 Mrs. Ketelsen passed away just a few days ago and I know that
3 all of you join with the group in extending to Jim our
4 condolences.

5 Mr. Chuck Shultz, of Tenneco, will present the
6 report in Jim's behalf. Let me say that I think Jim has done
7 an outstanding job getting this report out in almost record
8 time. Chuck Shultz served as chairman of the subcommittee,
9 and he and his group, too, have done an outstanding job of
10 bringing it together. I would like to have his report,
11 please. Mr. Shultz?

12 MR. SHULTZ: Thank you, Mr. Chairman. Ladies and
13 gentleman, I am pleased to present for your approval this
14 morning our Committee's proposal for a final report entitled
15 Factors Affecting U.S. Oil and Gas Outlook, and a draft
16 letter transmitting the report to the Secretary of Energy.
17 The draft report and the transmittal letter were sent to the
18 Council late last month for your review and an extra copy is
19 in front of you this morning.

20 By way of background, a little over a year ago,
21 Secretary Herrington requested the National Petroleum Council
22 to examine the factors affecting the nation's future supply
23 of, and demand for, oil and natural gas. The Secretary also
24 requested that the study examine the factors that
25 precipitated the 1970^s energy crisis^{is}, their financial impact

1 on the nation's economy, the appropriateness of the
2 Government's response, and the potential for ~~recurrence~~ ^{REOCCURRENCE} of
3 such ~~crisis~~ ^{crises}. In addition, the Council was asked to advise on
4 how the vulnerability to future energy crises can be avoided
5 or mitigated. For your reference, the Secretary's request
6 letter ~~is~~ ⁱⁿ Appendix A of the draft report.

7 At the time the Secretary requested this study in
8 the Fall of 1985, he expressed concern over a growing public
9 complacency with the nation's energy situation. Shortly
10 thereafter, world events proved the Secretary's concerns to
11 be well placed. Few, if any, in industry or government
12 foresaw the speed and depth of the oil price collapse that
13 occurred in early 1986.

14 As this audience knows all too well, crude prices
15 fell sixty percent in the first six months of 1986. Even
16 though prices have rebounded somewhat in recent months, the
17 1986 price drop and the uncertainty it created have ~~sewn~~ ^{sown} the
18 seeds for a dramatic reversal of the progress made over the
19 last decade in conservation and in domestic oil and gas
20 production.

21 With this as a background, the Committee held its
22 initial meeting less than a year ago. At that time, deep
23 concern was expressed that much of the exploration and
24 production development sector of the petroleum industry was
25 being dismantled by the rapid decline in the price of oil.

1 The Committee felt that, while the work was progressing on
2 this detailed and broad scoped final report that we have
3 before us today, it was imperative that an interim report
4 focusing on the severe drop in oil prices be developed on an
5 expedited basis.

6 The Council issued an interim report last October,
7 addressing the near term impact of the price decline on the
8 U.S. oil and gas and related industries and, in turn, on the
9 economic and strategic security of the United States. Since
10 October, the Committee, ^{its} ~~the~~ subcommittee and the three task
11 groups have continued a vigorous schedule of meetings, work
12 sessions and drafting sessions to produce a draft of the
13 final report for the Council's consideration. This final
14 report, Factors Affecting U.S. Oil and Gas Outlook, attempts
15 to develop a ^S ~~consensus~~ among many constituencies --
16 independents, majors, pipelines, service companies and
17 others. All are represented on the Council. All have
18 contributed to this effort.

19 It has become evident in recent months that there
20 is a lack of awareness or appreciation on the part of the
21 general public and Congress of the long term threat to our
22 economy and national security posed by Middle East OPEC's
23 ability to manipulate oil prices. Also, simply diversifying
24 our imports away from insecure sources does not isolate our
25 nation from energy crises and price shocks, as oil is a

1 fungible, easily transportable and internationally traded
2 commodity. These problems must be widely perceived before
3 actions or corrections can be taken. Hence, this report's
4 comprehensive review of historical factors and current supply
5 and demand data concerning both our industry and our nation.

6 In addition, the report is written to be applicable
7 to a downturn in the energy environment in general, not to
8 specific prices. At the time we last met, oil was fourteen
9 dollars a barrel. It is now seventeen dollars per barrel.
10 Our goal was to have a meaningful report at either price.
11 Certainly we need to recognize that seventeen dollars per
12 barrel ~~of~~ oil does not eliminate our long term concerns. The
13 gravity of the energy situation facing this country is
14 expressed in the report's executive summary. As it is very
15 brief and succinctly states ~~the study's~~ message, I would like
16 to read it at this time, *and I quote:*

17 "With ~~a~~^{the} precipitous drop in oil prices, U.S.
18 petroleum exploration and development budgets have
19 been slashed, drilling has fallen drastically,
20 major personnel layoffs have occurred in every
21 segment of the industry, reserves and production
22 are declining, and the productive capacity of the
23 industry is being seriously threatened. The
24 petroleum producing areas of the nation have been
25 devastated. These events have increased and

1 continue to increase the nation's dependence on oil
2 imports and, thus, subject the United States to a
3 dangerous level of vulnerability.

4 "Two characteristics of oil and gas distinguish
5 them from other commodities and give rise to
6 national security concerns. First and foremost,
7 the use of oil and natural gas is pervasive in the
8 U.S. economy, accounting for two thirds of the
9 nation's energy requirements. Second, there are no
10 ready substitutes for many petroleum products. The
11 economic impacts of future oil price shocks will
12 depend on many factors. Nevertheless, as U.S.
13 import's dependence rises over time, the economic
14 damage that would arise from an energy crisis
15 inevitably increases.

16 "The concentration of oil reserves in the Middle
17 East increases the likelihood of volatile prices
18 and supply disruptions in the future. On a per
19 barrel basis, U.S. oil finding and lifting costs
20 are many times higher than in the Middle East.
21 This allows Middle East producers the flexibility
22 to adjust prices and production policies to meet
23 internal needs. OPEC's decisions concerning the
24 level of production will directly influence world
25 price levels and simultaneously impact the economic

wellbeing of the nation and the major segment^S of
its industrial base. These factors create great
concern about future U.S. national security. Based
on geology and geophysical data, the United States
has substantial undiscovered oil and gas reserves.
However, these resources are relatively high cost
because they are located in either smaller fields
or in remote and hostile environments. The
discovery and development of these resources will
require significant investment ^{and} ~~in~~ the development
of new technology.

"The reductions in the level of exploration and
production activity brought on ^a ~~by~~ continuation of
lower prices and reduced cash flow cannot be
quickly reversed. Reduced incentives, including
the price decline, have significantly decreased the
willingness and ability of external sources to
support the industry. The time lag required to
improve the industry's productive capacity will
depend on both the depth and duration of these
conditions which impair the availability of
investment capital, manpower and equipment. This
increases U.S. energy vulnerability and places the
nation at greater risk.

"While the recent oil price decline has affected

1 all segments of the industry, it has been
2 particularly onerous for the oil field service
3 industry. Eighty percent of the recent increase in
4 unemployment in the oil and gas *Extraction industry* ~~extractive area~~ has
5 occurred in this field. Equipment is being lost
6 either through lack of maintenance,
7 cannibalization, or liquidation. Skilled and
8 professional personnel with years of training and
9 experience are unemployed or moving to other
10 industries. Any future increase ^{the} in demand for oil
11 field services will require the service and supply
12 industry to be rebuilt. There is no question that
13 depressed conditions in the petroleum industry will
14 affect the long term welfare of the nation. Until
15 the economics of oil and gas exploration improve
16 appreciably through increased prices, reduced taxes
17 or other incentives, U.S. exploration will remain
18 stagnant, dependence on imports will increase more
19 rapidly, and the nation's vulnerability to oil
20 price and supply shocks will rise to an excessively
21 dangerous level. All of this will seriously affect
22 the nation's security and economic stability.
23 Since the United States remains vulnerable to
24 future disruptions, Government should carefully
25 consider whether measures should be taken to alter

1 these trends or otherwise reduce the nation's
2 energy vulnerability.

3 "The energy policy options fall into two broad
4 categories. One, those that have been considered
5 for some time as viable options for the longer term
6 benefit of energy supply and demand in the United
7 States. Two, those that have been recently
8 considered as possible ways to counteract the
9 significant effects of the ^{recent} price decline. In view
10 of the importance of energy to the nation and the
11 complexity of ^{Security} ~~energy~~ issues every effort should be
12 made to formulate these and other options that
13 could conceivably satisfy the objective ^S of improved
14 energy security through the development of oil, gas
15 and alternative fuels and through conservation."

16 This ends the executive summary. The statements
17 made here are supported by the detailed analysis ^E in the
18 report. The report presents a broad coverage of many issues
19 and is divided into three parts. The summary, the main body
20 of chapters and the appendices. Let me quickly summarize the
21 contents of each part with regard to their coverage.

22 The summary section was written on the assumption
23 that many readers would not read the entire report. This
24 section thus comprehensively summarizes the main body of the
25 report. This section consists of the Executive Summary,

1 conclusions and options for consideration, and a report
2 summary.

3 The major conclusions from the study are presented
4 following the Executive Summary. These conclusions are U.S.
5 oil import dependence is rising. Higher U.S. oil import
6 dependence increases vulnerability. The U.S. economy remains
7 vulnerable to oil price shocks. U.S. import dependence can
8 be lessened but at a cost. The domestic petroleum industry
9 faces obstacles, and U.S. Government energy policies can play
10 a significant role.

11 As you will recall from the final report outline
12 that was presented for your review at the last Council
13 meeting, the report presents various options, rather than a
14 specific set of Government policy recommendations. These are
15 initiatives that the Federal Government can undertake if it
16 chooses to act to slow or reverse the trends identified in
17 this report. Thirteen options are presented, both short and
18 long term, and pertaining to both supply and demand. The
19 report summary contains key data from the main body of the
20 report. Also, we have attempted to include graphs which
21 illustrate historical and future data trends critical to
22 understanding the key factors that will affect our industry.
23 The total summary section is admittedly long, but as you
24 know, it is a complex message that we are trying to
25 communicate.

1 The main body of the report is divided into three
2 sections. Section one, historical perspective on energy
3 crisis^ε and U.S. policy ^{response} crisis^ε. It consists of three
4 chapters. Chapter one is a general introduction and
5 summary. It outlines analogies to the current situation and
6 warning signals from the past. Chapter two reviews actions
7 and events in the oil and gas industry that led to the energy
8 crisis^ε in the 1970's. Government policy responses to these
9 crises, both failures and successes. Chapter three reviews
10 the effect^ε of the energy crisis^ε on ^{the} U.S. economy with regard
11 to GNP, inflation, unemployment, etcetera^ε. ^{and} It includes a
12 brief look at the economic effects of the recent price
13 decline.

14 Chapter four is the start of section two and
15 summarizes the major economic, physical, institutional and
16 international factors that ^ε affect the U.S. oil and gas supply
17 and demand outlook. In Chapter five, The Economic Factors,
18 we address the effects that oil prices have had on energy
19 supply and demand from a historical perspective, and through
20 the two surveys that were conducted for this study. These
21 two surveys, the NPC Oil and Gas Outlook Survey which
22 reflects the responses of about thirty companies or
23 institutions on worldwide supply and demand outlook. The
24 second survey, The Independent Petroleum Association ¹ Society
25 of Professional Earth Scientists' Drilling Outlook Survey

1 which was sent out and represents the views of over a
2 thousand participants in U.S. oil and gas drilling activity.
3 Both surveys were presented in an abbreviated form in the
4 interim report.

5 Chapter six, Physical Factors, analyzes the effects
6 of the principal resource factors on the U.S. oil and gas
7 supply and demand outlook and stresses the relationship of
8 oil prices to these factors. The factors discussed include
9 the size, location and maturity of the U.S. oil and gas
10 resource base and reserve ^{additions} ~~editions~~. The level of technology
11 available to explore for, develop, produce, refine and
12 consume oil and gas and certain alternative fuels. Last, the
13 condition of the oil field service and supply industry.

14 Chapter seven, Institutional Factors, discusses the
15 effects that environmental and other Government policies
16 could have on the U.S. oil and gas supply and demand
17 outlook. In Chapter 8, The International Factors, since oil
18 is ~~as~~ fungible, easily transported, traded globally and its
19 price is influenced by OPEC actions, we have reviewed the
20 international factors that impact the outlook. These include
21 oil supply and demand for both OPEC and non-OPEC countries.

22 Section three consists of one chapter, and that is
23 Policy Options. This section represents Government policy
24 options available for avoiding or mitigating U.S.
25 vulnerability to future energy crises. As I noted earlier,

no recommendations are made. Rather, advantages and disadvantages of the major options are presented.

The final part of the report, the Appendices, contains additional information about the NPC and the data bases utilized in the report. I might add that, where available, ~~final~~ ^{into} 1986 data, or best estimates, will be inserted ~~in~~ the report in the final editing.

In addition to the report itself, the Committee has prepared and recommends the inclusion of a letter of transmittal from Chairman Bailey to Secretary Herrington which summarizes the Council's concern about the current energy situation and urges serious consideration of the options available to the Government to assist the petroleum industry's effort ^S to respond to the threats posed. It is intended that this letter be bound in the front of the report.

This complete my review of the draft report. Obviously, a report of this scope and depth ^{required a} ~~requirese~~ significant commitment of resources at a time when we are all having to cut back. I would like to give special thanks to all ~~efe~~ those who made this commitment.

First, I wish to thank the members of the Council for providing the personnel for the study groups. I would also like to express my appreciation to the DOE for their considerable support of the study effort. The dedication to

1 this effort by all of the participants has been outstanding.
2 While I cannot single out each individual who has contributed
3 above and beyond the call of duty, I would like to recognize
4 the Government Cochairman of the Committee, Don ~~Byer~~ ^{Bauer},
5 principal deputy assistant secretary for fossil energy. The
6 chairman of the economic and environmental impacts task
7 group, Jim ~~McNabb~~ ^{McNabb} of Conoco; the chairman of the historical
8 factors task group, Frank ~~Verastro~~ ^{Verastro} of ~~Pennzoil~~ ^{Pennzoil}, and the
9 chairman of the future supply and demand factors task group,
10 John ~~Deves~~ ^{Deves} of Chevron. Last, I would like to add a special
11 ~~note~~ ^{note} amount of thanks to two independents, Patrick ~~Gratton~~ ^{Gratton} of
12 Dallas, and Paul Hilliard from Lafayette, Louisiana for their
13 commitment, hard work and sacrifice from their own businesses
14 during a very difficult economic environment.

15 In conclusion, the report before you was
16 unanimously approved by the Committee. As we are all well
17 aware, there are strong and diverse opinions on some of the
18 issues addressed in this report. But, the Committee believes
19 that the draft represents a well balanced response to the
20 Secretary's request. Differing views of future events and
21 their potential impact on the U.S. petroleum industry ~~in the~~ ^{and}
22 nation are to be expected in light of today's fast moving and
23 unpredictable national and international developments.
24 Accordingly, the report does not attempt to forecast future
25 events or make a specific set of policy recommendations.

1 However, it is the Committee's belief that the United States
2 and other consuming nations face a repeat of the energy
3 crisis of the 1970's. Consequently, we urge the Secretary
4 and the Administration to thoughtfully review all of the
5 various options available to prevent a ~~recurrence~~ ^{REOCURRENCE} of these
6 crises and to take appropriate actions.

7 Mr. Chairman, this concludes my presentation.

8 CHAIRMAN BAILEY: Well Chuck, thank you very much
9 and I would hope you would also convey to Jim Ketelsen our
10 thanks to him for this important piece of work. I think the
11 Committee has done an excellent job on this report, and the
12 subcommittees and the task groups are certainly to be
13 commended on this very timely and important work.

14 I intend to deal with this just a little
15 differently than we have perhaps in the past. All the
16 written comments that have been made to me dealing with the
17 report have been focused on the transmittal letter. For that
18 reason, I am going to ask you to first deal with the approval
19 of the report and then secondly, deal with approval of the
20 transmittal letter. So, at this time, I would like to have a
21 motion to adopt the report of the Committee on U.S. Oil and
22 Gas Outlook.

23 SPEAKER FROM THE FLOOR: I'll so move,
24 Mr. Chairman.

25 CHAIRMAN BAILEY: Is there a second?

1 SPEAKER FROM THE FLOOR: I second it, Mr. Chairman.

2 (The motion to adopt the final
3 report of the Committee on
4 U.S. Oil and Gas Outlook,
5 entitled Factors Affecting
6 U.S. Oil and Gas Outlook, was
7 moved and seconded.)

8 CHAIRMAN BAILEY: Discussion?

9 (No response.)

10 CHAIRMAN BAILEY: Being no further discussion, all
11 of the Council members that are in favor of adoption of the
12 report please say 'aye'.

13 THOSE PRESENT: Aye.

14 CHAIRMAN BAILEY: Opposed, 'No'.

15 (No response.)

16 CHAIRMAN BAILEY: The report is adopted.

17 (The final report of the
18 Committee on U.S. Oil and Gas
19 Outlook, entitled Factors
20 Affecting U.S. Oil and Gas
21 Outlook, was unanimously voted
22 for adoption by the Council.)

23 CHAIRMAN BAILEY: Now, on the transmittal letter, I
24 would ask you to first, ~~uh~~ uh I'd like a motion to approve
25 the letter that's in the booklet and then we'll deal with

1 discussion. Is there a motion?

2 SPEAKER FROM THE FLOOR: I so move.

3 CHAIRMAN BAILEY: Is there a second?

4 SPEAKER 4: Second.

5 (The motion to adopt the letter
6 of transmittal included in the
7 final report of the Committee on
8 U.S. Oil and Gas Outlook was
9 moved.)

10 CHAIRMAN BAILEY: Discussion? Yes, sir?

11 DISCUSSION OPEN TO THE FLOOR

12 SPEAKER FROM THE FLOOR: I'm RICHARD GONZALEZ,
13 Senior Research Fellow at the University of Texas. I have
14 been involved in the study of energy economics for fifty
15 years, since joining Humble Oil and Refining Company as its
16 Economist.

17 Some of you may remember that, back in 1970,
18 another report was presented about oil and gas which said
19 that the United States could meet its future needs for oil
20 with a very modest increase in oil prices, and I moved that
21 that report be rejected because I did not consider it a valid
22 projection of what was going to happen from my analysis. I
23 compliment this Committee on an excellent presentation of ~~thee~~
24 information and analyses of the alternatives. I'm sorry that
25 the report does not specifically address the Secretary's

1 request for advice on how to reduce and mitigate
2 vulnerability. I would like to suggest consideration for
3 addition in the letter of transmittal the following thoughts:

4 First of all, the draft makes clear that the report
5 provides extensive evidence that the U.S. will remain
6 vulnerable to economically disruptive and expensive oil price
7 shocks unless its dependence on oil imports is reduced from
8 the current high levels to much lower safe levels.

9 Second, the report shows that the United States has
10 ample potential domestic energy resources, including coal
11 equivalent to one trillion barrels of oil, to reduce
12 vulnerability to shocks created by actions of oil exporting
13 countries. These resources ^{could} ~~to~~ provide ample time for
14 improvement of technology to increase energy efficiency and
15 to provide renewable energy at reasonable costs.

16 To reduce vulnerability to price shocks created by
17 oil exporting countries I believe that the letter of
18 transmittal should state that Congress and the Administration
19 should act to accomplish the following objectives, and I will
20 list these.

21 First, to encourage exploration and development of
22 all potential domestic energy resources, including those of
23 on shore and off shore Federal lands.

24 Second, to assure incentives for increased
25 investments ⁱⁿ ~~the~~ development of all domestic energy at the

rate required to reduce dependence on oil imports from the current dangerous levels to safe levels.

Third, to assure adequate incentives for research to promote ~~continued~~ ^{Continuing} improvement in energy efficiency and additional recovery of oil from known reserves, and in reducing the cost of renewable energy to competitive levels.

Fourth, to make sure that no taxes are imposed which discourage investments in developments⁹ of domestic energy resources, and that any changes in tax provision be designed to encourage development of domestic energy at a rate adequate to reduce dependence on oil imports.

Five. To recognize that the value of domestic energy is greater than that of oil imports because of the cost of ~~a~~ ^{the} strategic petroleum reserve and of the Government's³ expenditures on synthetic fuel programs and research, and to consider what the Government should do to show that it recognizes that the price of imported oil does not cover the full economic cost to ~~(indiscernible)~~ ^{the nation}.

Six. To make reduction of the very large outlays for imported oil part of the total program of reducing the ~~trade~~ ^{trade} deficit of the United States.

Now, as the Council members are aware, ~~(indiscernible)~~ ^{Hogan} of the ~~Harvard~~ ^{Harvard} Energy Center have recommended that the

1 Government impose fees on imports to recognize that it is
2 imports that make necessary the expenditures for the
3 strategic petroleum reserves⁵ and for the synthetic fuels
4 program^Λ and research. He has recommended a tariff of ten
5 dollars a barrel which I consider completely out of line, but
6 I do think that the Government should recognize that there is
7 an externality in the price of oil that is not covered by the
8 cost of imports. In economic terms, this calls for action to
9 correct that.

10 The Government should quit talking about free
11 market in oil, because it is perfectly clear that the kind of
12 shock movements that we have had, the large changes in price,
13 do not reflect gradual adjustments of demand and supply.
14 They reflect the action of governments that can manipulate
15 price to their advantage as stated in the report, and have
16 done so. In that situation, it is a mistake for the
17 Government to keep talking about a free market for oil.

18 CHAIRMAN BAILEY: Well, thank you very much,
19 ^DMr. Gonzalez, for those remarks. Your work is well known and
20 certainly your views are well respected.

21 But, let me say this. The letter that I ultimately
22 will draft, I don't feel can really deviate from the report
23 itself.

24 There are some points that you have made that the
25 industry and those associated with the industry would have

1 very little difficulty in agreeing with. Other points that
2 ~~you've~~^{you} made, I think it's quite clear that we have some
3 rather broad disagreement, particularly as it relates to
4 specific recommendations.

5 We will certainly take into account and go as far
6 as we can in emphasizing the important points in the letter,
7 so long as the letter is consistent with the report.

8 Do we have further discussion? Yes, sir?

9 SPEAKER FROM THE FLOOR: I waited for someone else
10 to say this and they didn't come forward, ~~I guess~~^{Ralph} --

11 CHAIRMAN BAILEY: Would you state your name,
12 please?

13 SPEAKER FROM THE FLOOR: ~~MACK~~^{Mack} McLEAN, from
14 Lafayette, Louisiana.

15 I stood up at the last meeting, as many of you
16 remember; I brought some questions to the floor and I'm going
17 to do it again.

18 ~~Now~~^{Because} what we have before us is a very excellent
19 incisive report. I congratulate the Committee on their
20 work. This is really a beautiful work.

21 Whether we come up with suggestions ~~for~~^{or} options,
22 how strong we make any suggestion or option, I think, at this
23 point in time may be moot. But, what is more important is,
24 we've got to get the problem across to the public. We don't
25 have the credibility, as I pointed out at our last meeting.

1 We, the members of the oil business unfortunately wear the
2 black hats. We don't have the credibility. There are
3 people, however, that do. The President, in spite of his
4 problems in recent days. The Secretary of Energy and many
5 other people have got to start projecting ~~it across~~ *the problem* We're
6 not going to be able, nobody's going to be able -- the
7 Administration or nobody else is going to be able to offer
8 solutions until we convince the public that there is a
9 national security problem.

10 CHAIRMAN BAILEY: Thank you very much.
11 further discussion? Then -- yes, Fred?

12 SPEAKER FROM THE FLOOR: What concerns me --

13 CHAIRMAN BAILEY: Your name, please, so we can have
14 it on the record?

15 SPEAKER FROM THE FLOOR: I'm FRED HARTLEY. I'm
16 from the Unocal Corporation in Los Angeles. What concerns me
17 about your letter -- I've no criticism with the report
18 whatsoever. I think Jim and his associates have done a
19 commendable job. Certainly, it confirms what we all
20 suspected, and that nobody in this Administration wished to
21 believe. In fact, we've been told on many occasions that we
22 should relax and enjoy it. We should be happy. We've got a
23 low cost energy climate to operate our country in, it's good
24 for manufacturing. I'm surprised they could say that,
25 because it sure as hell hasn't improved our export

*Do we have
Is there*

1 capabilities.

2 Nevertheless, we've had this snow job now for
3 twelve months. That's the education, sir, that we have given
4 the public ^{at} ~~and~~ the Administrative level, that there is no
5 problem. This report confirms what I think most of the men
6 in this room knew, and women, that we were on a toboggan of
7 reduced production and reduced reserves.

8 The results of 1986 are pretty much in at this
9 point and we are now able to say to the Administration 'we
10 told you so' ^{, now that} ~~Now~~ the facts are there.

11 Now, I get concerned in the letter here where it
12 states,

13 "We have seen ^{that} ~~the~~ foreign countries ^{acting} ~~act~~ in their
14 own self interest ^{Can radically} ~~and erratically~~ change the world
15 oil markets overnight. The United States and other
16 consuming nations must ^{be vigilant} ~~reform vigilantly~~ ^{these} to actions
17 and be prepared to respond to ensure that their
18 economic prosperity and energy security are not
19 jeopardized."

20 I think we should follow that statement and say
21 that, let's face it, we have gone now another year with this
22 report coming out, and the report should emphatically confirm
23 that we have already put ourselves in the position of being
24 ^{partially} ~~crushingly~~ destroyed as an industry, and that we don't need
25 some tender loving care from the Government to hold us where

1 we are. We need the care to back up to where we were a year
2 ago before the ~~confirm~~ ^{confirming facts} ~~back~~ of the decline in production ^{and}
3 reserves became self evident.

4 As you know, we now apparently do have agreement on
5 at least one thing with the Administration and that is, ^{that} ~~there~~
6 oil production has dropped between seven and eight hundred
7 thousand barrels a day. I guess, on that we don't have to
8 take the lawyer's position on the one hand and on the other
9 hand, ^{that's} ~~but~~ one area we can confirm.

10 Now, it seems to me that the time to tell these
11 people that they have sat around and have been oblivious to
12 the attack made on the United States, the same kind of attack
13 as if we'd been bombed and our oil wells put out of
14 commission. Surely, we would have been aroused if that had
15 happened. ^{and} ~~We would have~~ had the job done ^{to} ~~through~~ our country
16 that way. But we got it done with the ^{effects} ~~practice~~ being exactly
17 the same by this obvious violence of slowing down the
18 production of the Western world and, in effect, as I call it
19 on many occasions, the ^{Trojan} ~~approaching~~ horse came into our
20 country with their ^a ~~cheap~~ oil, pushed us around so that we
21 could not combat it. ^{and} ~~Now~~ we have had to suffer the
22 consequences. The consequences are here; the report states
23 it in black and white. I think that this letter should have
24 a tone that would indicate to the gentlemen of the
25 Administration, this is not a time to maintain the status

1 quo, this is the time to back up and put ourselves in a
 2 position to get back at least to where we were as soon as we
 3 can, and action should be taken accordingly.

4 Now, I know the price question is one that
 5 everybody ~~just~~ ^{gets} trembles and shakes, especially those
 6 marvelous people called lawyers who worry about such matters
 7 as discussing it and so on ^{and} I don't intend to do that.
 8 There are enough people ^{in New York} going to jail without me joining
 9 them. But, I would say that the Government is in the
 10 position, and they don't need to be told any more. They've
 11 been told again and again.

12 The man from ~~Geneva~~ ^{TENNECO} who so ably brought up that
 13 subject, in effect, stated that fifteen or fourteen dollar
 14 oil won't cut the cake, and seventeen won't. Presumably, we
 15 were able, and had demonstrated in industry, that the level
 16 where we were, which is something in the area of twenty five
 17 -- I know that was above the average that we were getting in
 18 1985 for our oil -- was giving us sufficient cash flow that
 19 warranted us ^{to} hold our ~~--- pretty well, hold our~~ production and
 20 our reserves. That is a fact that that was the level of the
 21 average price, at least for our company in the United States,
 22 for ^{all quantities} ~~plays~~ of crude that we ^{handle} ~~had were~~ all the way down to that
 23 horrible sixth gravity stuff that God gave us in Santa
 24 Barbara -- Santa Maria. That sweet condensate from that
 25 marvelous state of Louisiana.

1 So, we know what the numbers should be, we've
2 demonstrated that too. There shouldn't be anything left to
3 argue about. We should implement ^{through} Government action ^{an} ~~and~~
4 ^{effective} ~~effect~~ a defensive plan against those who are out to destroy
5 us.

6 You know, the laugh of this whole thing, of course,
7 is that the OPEC boys overshot. You know, they thought they
8 were going to hold us at twenty, and that would be a nice
9 number that they could slowly suffocate us with. But, thank
10 God, they did overshoot, because they really demonstrated the
11 severity of foreign powers and their decisions have on the
12 United States.

13 I think that we should confirm to the
14 Administration that we have dawdled, postponed and cajoled
15 ourselves into this happy hour. It's like 'thank God it's
16 Friday' every day of the week. We can go out and have a
17 drink and be happy and enjoy this energy and drive as much as
18 you want. Hell, they're even talking now about doing away
19 with the speed limit so we can make sure we burn some more ^{oil.} ~~efe~~
20 ~~it~~ ^{on} I've been [^] the lines to save energy all these years and
21 everything we've done has gone into reverse as a result of
22 what's happened in the last twelve months. Now, I think that
23 this report should be more agitated. Your letter should be
24 more agitated in that it should convey to the Secretary and
25 the Administration that, 'you fellows have sat around,

1 ignored us. Here is the situation we're in. This report
2 confirms it. Action needs to be taken any way that's
3 required to get us back to where we were in 1985, both as to
4 the level of pricing and the tax structure. ^I_^

5 You know, this new tax bill reversed everything
6 that the Administration thought was marvelous in 1981 when
7 they supposedly put all those things into effect that
8 increased the reason for investing. My God, we're going back
9 now so we're increasing the capital gains tax, doing
10 everything in our power to make certain we're not in a
11 position to attract money for investment, ^{and}_^ particularly so in
12 our industry.

13 Well, I think that it's time to put up or shut up.
14 Now, I've had enough of this happy talk to last me for the
15 rest of my life. We've established a climate in this country
16 that's destroying the value of companies. We've made it
17 possible for the weakened companies through pricing to have
18 these companies destroyed by the barbarians of Los Angeles,
19 Washington and Wall Street. A lot of companies, as you know,
20 have been ^{put}_^ on the skids. I've ended up my career as a kind of
21 a peon to the banking profession. I get up every morning and
22 write a check for somewhere between one and a half and two
23 million dollars just so that we can open the doors.

24 Incidentally, the guy that causes ^d_^ all my problems
25 wrote a letter to the L.A. Times the other day and he said,

1 what Unocal ought to do is sell equity. Hell, the whole
 2 purpose of his game plan was to take equity up, let the
 3 company pull the debt. Thank God we've only got it half full
 4 rather than totally full. So, we're ~~at~~ ^{SURVIVOR} a survival. But, the
 5 United States is not a survivor. I can become a happy guy.
 6 We can liquidate our companies slowly but surely, as is
 7 happening to most companies today, as the statistics of this
 8 report confirm.

9 I think, in conclusion, sir, you can tell the
 10 Secretary what I've said in your spare time.

11 ~~MAN~~ ^{MAN} CHAIRPERSON BAILEY: Fred, you are eloquent. Thank
 12 you very much for those remarks.

13 Yes, sir?

14
 15 SPEAKER FROM THE FLOOR: My name is WELDON SMITH
 16 with the Big Six Drilling Company. I mention the name of my
 17 company because ^{, if you're drilling} in the ~~visibility~~ business, anytime you can
 18 get a little free advertising you'd better take it. I know
 19 there are a lot of people here that have a lot of wells to
 20 ^{drill} ~~build~~ this year.

21 I'd like to point out that ^{in the new report} ~~(indiscernible)~~ the oil
 22 and gas drilling activities fell fifty percent which will
 23 reduce production in the future. That's sure a true
 24 statement. I don't think it tells the whole story.

25 The drop of fifty percent in ~~fore~~ '86 was a drop

1 from a bad year in 1985 in the drilling business. To really
2 get the picture of how drastic the drilling business has
3 suffered, you'd have to know that there were 4505 rigs
4 running in '81, and at the worst part of last year there were
5 just under 700. So, the reduction in drilling activity, from
6 the top to the bottom, ^{the shock, a} ~~was sharp and sudden drop,~~ ^{It wasn't}
7 fifty percent, it was eighty-five percent. I believe that
8 that's a world's record for the greatest drop that any
9 industry ever had in any phase of ^{human} ~~new~~ endeavor. If you were
10 in it, you would really feel it.

11 CHAIRMAN BAILEY: Thank you very much. Yes, sir?

12 SPEAKER FROM THE FLOOR: Mr. Chairman, in order to
13 point out --

14 ^{MAN} ~~CHAIRPERSON~~ BAILEY: Name, please?

15 SPEAKER FROM THE FLOOR: John ^{Rex} ~~Michael~~ Jones, sir.

16 In order to point out some of these things that
17 we're talking about, as you mentioned to me earlier, we do
18 have a trend line for '86 now, the data just in. We also
19 have recent months showing that the twenty-seven percent
20 number on a month basis, now, would be thirty-two on a net
21 basis. On a gross basis, thirty-eight percent of our needs
22 are being met by imports. I'm wondering if it would be
23 appropriate to include data of that type to show that the
24 direction that we all had feared a year ago has, in fact,
25 been borne out now with the recent data, in your transmittal

1 letter.

2 CHAIRMAN BAILEY: Thank you, John. I think the
3 answer to that is yes. That's a statement of fact, as long
4 as we understand that you can't take a specific point in time
5 and say that is the import percentage, because next month it
6 could change, but, the fact that we have established a trend
7 line. We should point out the direction in which that trend,
8 or the total amount of imports is slipping away from that
9 trend line. We can certainly do that.

10 MR. ~~SMITH~~^{JONES} Thank you.

11 CHAIRMAN BAILEY: Any further discussion?

12 SPEAKER FROM THE FLOOR: Mr. Chairman?

13 CHAIRMAN BAILEY: Yes, sir?

14 SPEAKER FROM THE FLOOR: [JOHN ~~REX-JONES~~^{MILLER} In the
15 Secretary's absence, he's been complimented many times on his
16 foresight in requesting this study and, at the same time, the
17 Committee has been complimented many times in the preparation
18 and development of this study. I would like to second both
19 of those comments.

20 It seems to me that, while we're discussing this
21 transmittal letter, the thing that seems to be coming through
22 most severely, most importantly, most concernably is the
23 matter of urgency. The matter of whether or not those in the
24 Administration sense the urgency that this industry senses
25 about the problem of our increasing vulnerability to imports

1 and our dependency and, therefore, translating that into
2 security aspects.

3 I'm wondering if, perhaps, the Secretary has access
4 to information that we have not yet developed in this study
5 or in other studies that have been undertaken almost during
6 this same timeframe. Perhaps that information, if he could
7 or would share it with this Committee, might reduce this
8 apprehension and this extreme concern that we are under ~~it~~
9 today, because there does not seem to be that degree of
10 concern on the part of some within the Administration.

11 Is it possible that there's some additional
12 information that might be shared with the Committee that
13 might reduce ~~this~~ apprehension and alleviate some of the
14 concerns ~~where our trust has been torn~~ *we're expressing this morning*

15 CHAIRMAN BAILEY: Thank you very much. I would
16 ask, perhaps, if the Secretary would like to comment on
17 that. He might do it when he makes his remarks in a few
18 minutes.

19 Do we have further discussion? Well -- Yes, sir?
20 Name, please?

21 SPEAKER FROM THE FLOOR: *I'm Paul Hilliard* ~~(Indiscernible)~~, I'm a
22 member of the ~~(indiscernible)~~ *walking wounded* from Lafayette, Louisiana, ~~the~~ *the*
23 area now enjoying the eighteen percent unemployment rate.

24 The accepted figures for the production decline
25 from 1/1/86 through 12/31/86 seems to be about seven hundred

1 fifty thousand barrels a day. That decline is only about
 2 eleven percent of the total average daily production in the
 3 lower forty-eight of the 1985. So, there's an eighty-nine
 4 percent left. But the decline represents the equivalent of
 5 all of the daily production in 1985, in the following
 6 states. New York, Pennsylvania, Ohio, Indiana, Michigan,
 7 Missouri, Nebraska, North Dakota, South Dakota, Montana,
 8 Nevada, New Mexico, Arkansas and Mississippi. That's seven
 9 hundred and fifty thousand barrels a day in those fourteen
 10 states. *So you* ~~we~~ might try to think of the decline in terms of the
 11 loss of fourteen out of thirty-three *of the* producing states, *in*
 12 *the* ~~those~~ states which produce oil for *Americans* ~~America~~. Now, if the
 13 decline continues unabated and we see it *accelerating* ~~accelerated~~ in
 14 recent months, and it certainly shall ~~be accelerated~~ *if* the
 15 *rig count* ~~rate comes~~ stays around current levels.

16 In 1987, we'll see the decline of production equal
 17 to the total produced in 1985 by the following states:
 18 Kentucky, Illinois, Kansas and Oklahoma. They *produced* ~~produce~~ seven
 19 hundred fifty-seven thousand barrels a day averaged *in* 1985.
 20 But since they've already declined, you'll have to throw in
 21 Alabama, Tennessee and Florida which is another ninety-two
 22 thousand barrels a day. You now have a scenario wherein
 23 you'll have lost *for* ~~from~~ total production, the equivalent of *thee*
 24 total production, of twenty-one out of thirty-three producing
 25 states. That may help *problem -- the* the people here in Washington put it

1 in a slightly different perspective. That's all. Thank you.

2 CHAIRMAN BAILEY: Thank you very much. Yes, sir?

3 SPEAKER FROM THE FLOOR: ROBERT MOSBACHER. I'd
4 like to add to a comment that was made earlier about the
5 credibility of those in the oil industry and ~~to~~ add that the
6 report, and hopefully the transmittal letter, should go
7 beyond the concern of the oil industry. Now, I think the
8 concern that the people in this room have, ~~in~~ this industry
9 has, is way beyond the concern of a group of oil men. It's
10 the concern of Americans, because I suspect most people in
11 this room are ~~able~~ ^{going} to survive, and they'll be here when the
12 prices go up. They probably will be making a great profit
13 and, selfishly speaking, many of them would be better off
14 just sitting it out. But, as Americans, everyone in this
15 room is concerned about our country and what's going to
16 happen ~~in~~ ^{and} our dependency. I hope the Administration and the
17 Congress and the rest of the country realize that.

18 CHAIRMAN BAILEY: Thank you, Bob for those
19 remarks. Any more discussion?

20 SPEAKER FROM THE FLOOR: ^[MAC McLEAN] One more ~~time~~ ^{comment} here. I
21 don't want to dominate. I just want to recommend that the
22 Secretary ~~this is~~ ^{missed} probably, no reflection on the rest of us,
23 ~~But, admit~~ ^{but missed} probably the best comments of the day from
24 Mr. Hartley. I strongly recommend to your readings from the
25 records Mr. Hartley's comments to the Secretary.

1 CHAIRMAN BAILEY: Thank you. Any further
2 discussion?

3 (No response.)

4 CHAIRMAN BAILEY: Well, I think you can see I have
5 quite a job in attempting to draft this transmittal letter.
6 My friend Chuck has furiously been taking notes.

7 We can redraft this letter, and I think we should.
8 It's quite obvious that the letter will not reach some of the
9 extreme positions, if you will permit me to refer to them as
10 that. But, I think the tone can certainly reflect the
11 urgency that I think I detect from your comments and, as I
12 said at the outset in the discussion of the letter, the final
13 draft obviously will have to be consistent with the report
14 itself.

15 I think what I would ask the Council to do is to
16 authorize me to attempt to draft that letter which will be
17 attached to and made a part of the report and, as we do so --
18 the Committee will certainly have the obligation to work with
19 me in that regard -- we'll take into account as best we can
20 everything that has been said here this morning about the
21 letter itself.

22 I have a motion and a second, and subject to that
23 final editing, I would like to ask you to authorize me to
24 proceed with it. All those in favor, would you say 'aye'?

25 THOSE PRESENT: Aye.

CHAIRMAN BAILEY: Opposed, say 'no'?

(No response.)

CHAIRMAN BAILEY: Thank you very much.

(A motion to authorize Chairman Bailey to edit and finalize the transmittal letter to accompany the final report of the Committee on U.S. Oil and Gas Outlook was approved.)

SPEAKER FROM THE FLOOR: Mr. Chairman, FRED HARTLEY again. Do you plan to have any minority letters. I hope I don't have to have a minority letter. ~~I mean, I~~ wasn't too radical. ~~There are extremes~~ here in the room and I don't think ~~(indiscernible)~~.
*You referred to
I'm extreme at all*

CHAIRMAN BAILEY: That was probably, Fred, a poor choice of words on my part. But, what I meant to say is that we couldn't reach, I think, all the positions that have been advanced.

MR. HARTLEY: But, you may want to consider -- the Committee here may want to consider whether there should be room ~~in~~ *for* this report ~~to contain~~ *to contain* minority opinions on the recommendations that we've seen, if we feel that the recommendations ~~are~~ *you* going to make ~~it~~ *to* your letter, ~~and not~~ *do* convey some of the things that have been expressed in this room, being what Mr. Mosbacher says, whether our nation's

Survive.

38

1 been tortured. He's absolutely right. We can all [^]—~~e~~ Hell, I
2 got my first Social Security check the other day, I'm in
3 great shape. I never asked anybody for it, by the way. It
4 just came in the mail. I never filled out one damn form to
5 get that check. So, I think we might like to have that
6 privilege if we feel it's necessary. I don't personally plan
7 to do that unless I just feel forced to say that the minority
8 viewpoint on what we should do as a result of the contents of
9 this report would motivate me to do so.

10 CHAIRMAN BAILEY: I think my response to that, from
11 the Chair, is that the report has been approved by the
12 Council, and if any Council members would like to write a
13 minority report and forward it on to the Secretary, fine..
14 But, I think the report has been submitted and approved.

15
16 MR. HARTLEY: I have no problems with the report, I
17 think the report is beautiful. I'm ^{only} [^] talking about a call to
18 arms letter, which is your letter.

19 CHAIRMAN BAILEY: Yes, sir?

20 SPEAKER FROM THE FLOOR: Mr. Chairman, WILLIAM
21 STEVENSON from Utah. (Indiscernible)

22 I think one of the ^{great} ~~first~~ real shocks that I feel
23 that really is making the difference is the Secretary's
24 position that he recently came out. I read about it in two
25 different parts of the country and I think the public has

1 some awareness now of the decline in oil production.

2 To a degree, for us to give a report to the man
3 that asked for it, and (indiscernible) asked for it, it's
4 kind of like taking coal from New Castle. In all due regard
5 that the report undoubtedly is correct, or seems to be
6 correct as possible, but are we not really looking at a media
7 problem as well? We acknowledged that the oil industry wears
8 the black hat. *no question about it*
~~So, don't be modest.~~

9 I notice in our directory, we've got a number of
10 people in here who ~~may~~ could possibly, if they agree with the
11 report in general, produce a white paper that says people
12 with other professions other than exactly being in the oil
13 and gas business, you know, concur with this. Is there not a
14 possibility that some of the media be produced out of this?
15 *That is* The members *are* of the people, of this Committee, when
16 they go back home, perhaps, report to the local media there.
17 Because this is not a battle of us getting a report correct
18 to the Department of Interiors. It's a battle of minds and
19 the only way that's going to be solved is when the people,
20 the housewives in the kitchens in the morning reads *it* in the
21 papers or that school teacher, or that truck driver, has an
22 understanding that we're faced with the impending disaster.
23 I would *outline* ~~recommend~~ what the policy of the National Petroleum
24 Council really is. I would suggest that you give some
25 consideration in looking at the media battle as well.

1 CHAIRMAN BAILEY: Well, thank you very much. I
2 think that my response to that is that, as you know, the
3 Council serves at the pleasure of the Secretary of Energy,
4 and I believe that the study that we have prepared at his
5 request is responsive, as Chuck Shultz outlined. He asked us
6 to examine the factors affecting the nation's future supply
7 of oil and gas. He asked us to examine the factors that
8 precipitated the energy crisis^e in the 1970's, the financial
9 impact on the economy, the appropriateness of the nation's
10 response at that time, and the potential for a ~~recurrence~~^{REOCCURRENCE} of
11 future crises.

12 Also, he asked to advise on the vulnerability to
13 future crises and how they might be avoided or mitigated. I
14 think the Committee's final draft is an excellent response,
15 and I think that has been generally verified from comments
16 throughout the Council, that it has been an excellent
17 response to that request. Now, the Committee, in their work
18 considered all these various options, and the Committee
19 structure was made up such that we did hear, in Committee,
20 these various arguments advanced.

21 I think that the options that have been outlined
22 are those that will start the debate and, if we are
23 successful in our efforts, the debate will start. Our job
24 was to present the facts as we see them to the Secretary,
25 which we have done. But, I think, as the debate starts there

are other avenues in which to advance our ideas ^{that} and to reach the media, ^{ic} there are other ways that the petroleum industry and others that are interested in the nation's work, as carefully outlined by Bob Mosbacher and others, that we'll have to look to those approaches in order to participate in that debate. I don't believe that the Council itself would undertake to do more than do the best job we can of being responsive to the Secretary and delivering into his hands a report that states the facts as we can best assemble them. I feel that we've done that.

Are there any other comments?

(No response.)

CHAIRMAN BAILEY: Well, I think, Mr. Secretary, that this report will be of help and of use to you and the Department, and we are indeed honored to have prepared it for you. I want to add my thanks to the many people within the Department who have also provided their time and their efforts to assist our groups in their work, and I want to thank all the members of the Council who have also provided a lot of help and assistance, staff time, and what have you, in helping ~~to~~ provide the various subcommittee members and the task force groups.

I wonder at this time if you'd like to make any comment about the report itself; also, any other remarks you'd like to make.

1 I'm delighted to introduce Secretary John
2 Herrington.

3 SECRETARY HERRINGTON: Thank you, Ralph. I think,
4 before I start, I would like very much to join you in saying
5 a word about Jim Ketelsen. To me, in the last two years that
6 I've been in this job he has, I think, been a very thoughtful
7 person. I've had a chance to meet with him several times and
8 I know a lot of you are much closer friends than I was, but
9 to me he was very helpful. I would like to join you in
10 expressing what I think is a loss not only to this industry
11 but of a fine American.

12 The energy outlook that you've put together, I
13 think you should be congratulated on. I've seen quite a bit
14 of it. I think it's an extremely thorough and *credible* ~~incredible~~ job
15 that will be coming at a very critical time. The data, the
16 projections, the suggested options have been an asset to us
17 at the Department in our ongoing review which we are now
18 looking at coming out with in probably the middle of March.
19 We're looking somewhere along the week of March 16, providing
20 our printing dates can be met.

21 Do we have new data? That was one of the questions
22 that came up here a minute ago. We have made a great effort
23 to work on an interdepartmental basis *an interagency* ~~and an Agency~~ basis and *in*
24 the Government across the board. There has been --

25 I want to congratulate Bill Unlister *on this, that has been* ~~who's done an~~

1 extensive effort to draw in CIA analysis, State Department
2 Defense Analysis, questions like anticipated Persian Gulf
3 interruptions, when we expect ~~one~~[^] ~~how~~[^] ~~the~~[^] report, I
4 think, as you see it will have all of that wrapped into it.
5 Those were taken into the calculations. I know all of you
6 agree with me that one of the hard things to do is predicting ~~in~~[^]
7 a situation like this, but it's probably as credible as we
8 can make it. That, plus your report, I think, should set the
9 playing field, or the ground work, for what is a pretty firm
10 statistical base that we can all work from.

11 The -- I think it's very important, the comment
12 that was made a minute ago about media and other comments --
13 It's very important that these choices that you have
14 discussed in your report and some of the options that we are
15 going to put forward need to be communicated and discussed.

16 I couldn't help but look at the timeliness and I
17 know it wasn't by accident, ~~though, that~~^{of} the Op Ed piece ~~in~~^{today}
18 the Wall Street Journal that was written by one of your
19 members, John Baden, "Do oil and ecology mix?" Look at the
20 benefit of something like that put before businessmen in this
21 country who read that particular periodical every day. ~~I bet~~^{would}
22 very few know -- two of the main points I picked out of that
23 this morning for examples. John said that seven hundred and
24 sixty million acres of Federally owned land representing one
25 third of the land area of the U.S. and less than a quarter of

1 it has been explored for oil and gas. How many businessmen
2 operating around the country today know that figure? Point
3 two he made that was, I thought, very good. Forty percent to
4 sixty percent of all Federal lands are closed to oil and gas
5 leasing, yet a GAO report says two hundred sixty-one million
6 acres of Federal land outside Alaska have serious potential.
7 Small point. But not so small in the scheme of things.

8 As we move forward into the debate of whether this
9 country is secure enough to take the easy environmental vote
10 for Senators and Congressmen in this country. *And the*
11 environmental vote is this: "Close down the Arctic wildlife
12 refuge." *what I call*

13 An area that admittedly has potential in the --
14 anywhere, depending on what analysis you look at -- between
15 five billion and twenty-nine billion potential *in* reserves,
16 sitting directly between two major fields. It's an easy
17 environmental vote, but do you as a citizen *still* take that
18 step and still honor your obligation to the what I think has
19 been discussed very well this morning, the national security
20 aspects of this industry and of the outcome of this
21 industry. I think my answer is pretty clear and I think
22 yours is pretty clear, but when you look at an article like
23 the one that was put out this morning, I think it brings home
24 just how short sighted we have been in a number of particular
25 areas. I think, while our study will not be concluded until

1 next month -- and I think that's timely -- it's coming
2 together. This debate is reaching a new level of
3 consciousness. One of the things that Ralph said a minute
4 ago that I agree with entirely is that this is a cooperative
5 effort between the industry, obviously ^{and} the Government. But
6 Congress is a large player in this and obviously, Americans
7 ~~that~~ need to know about the situation.

8 I've been hearing from a number of you in the
9 industry. I'm also hearing from people that are in the
10 service ^{industry's} ~~industries~~ infrastructure. Yesterday, we met with ~~the~~
11 Governors of Texas and Oklahoma, the past president of the
12 Geophysical Association. I think we're beyond the point of
13 asking if there is a serious problem. I think that, we have
14 carried that point ~~until~~ now I think that everybody
15 recognizes it.

16 The question that was asked a minute ago, does
17 everybody in the Administration know that. I can't tell you
18 honestly that everyone in this Administration knows that.
19 You have some people in the Administration, significant
20 policy makers that do know that, including the President. In
21 a number of meetings where some of you in the industry have
22 been present, along with some Congressmen from your
23 Districts, the President has made some very strong statements
24 in that regard. I think, one of the things he said when he
25 tasked the National Security Report to the Department of

1 Energy -- I'm trying to recall exactly what he said. But, he
2 said the statement -- I made a note of it. In asking me to
3 oversee the high level energy review, the President made the
4 statement that we should never again be dependent on
5 unreliable foreign sources of oil, which I think is a
6 foregone conclusion. Further, that a strong and viable
7 domestic petroleum industry is vital to our nation's
8 wellbeing. I think it's well known in the Administration
9 today that there are significant problems in this industry.
10 If they don't, they're blind.

11 Your own report ^{for '86} ~~of 4/86~~ shows us that our
12 activities in oil and gas drilling are down fifty percent,
13 our domestic production has dropped seven hundred thousand
14 barrels a day from year end, oil demand has increased by
15 about two and one half percent, crude oil and petroleum
16 product imports have increased twenty-three percent. You
17 could go on and on and on. How many people out of business,
18 the unemployment rates in Louisiana. I think the damage has
19 been alarming. I think the fallout from the fact that we
20 have a hundred and fifty thousand direct oil industry jobs
21 that have been lost, nearly a third of this total work force,
22 is going to bring this message home even stronger.

23 I think a further fallout from this that will have
24 tremendous political ^E affect. Alaska state government loses a
25 hundred and fifty million dollars, and Texas loses about a

1 hundred million dollars for every dollar decline in oil
2 prices. Certainly, that will have long term political
3 effects not only now but in the '88 election, and as we enter
4 into Congressional debate on what we do about this problem.
5 That's where we are today.

6 That's the hard part. I think we have a strong
7 significant recognition across the board of what the problem
8 is. The question is where do we go. Your report, I think,
9 will be the basis for some strong action. I think our
10 report, setting forth a number of options that I'll go over
11 in a minute, will be the basis for some strong action.

12 I was deeply disappointed last year. Perhaps you
13 could tell some of my frustrations. We were unable to
14 deregulate natural gas, get rid of incremental pricing, get
15 rid of the Fuel Use Act, repeal the Windfall Profits Tax, put
16 through the oil and gas revitalization act of 1986. These
17 were not big things. These were reasonable, productive
18 things, although not alone would not help this particular
19 industry totally, they would be a signal. They would be a
20 start.

21 What did we get instead? We got a -- we were
22 successful in some areas, as you know, in the accounting
23 procedures at the SEC and a few other things that may have
24 helped you a little bit. We got, instead ~~ac~~ superfund
25 legislation that was financed through a differential in price

1 between eight and a half and eleven cents. Effectively, a
 2 three and a half cent oil import fee. You couldn't call it
 3 much else. But, miniscule, very tiny, to finance superfund
 4 activities.

5 The first thing that happened was, we had high
 6 officials from every country in the world that flew
 7 immediately to Washington and began the drum beat for
 8 protectionism, 'you're violating ^{GATT}~~GAT~~', 'you are treating our
 9 industries unfairly'. It didn't stop. Some of the letters I
 10 received from the Energy Minister in Great Britain and other
 11 countries, if you read them in a closed room without any
 12 other factors around you, it would make you think that we
 13 were going to war tomorrow and that the Port of New York
 14 would probably be blockaded in the morning. Very hard, hard
 15 positions. So -- of course, ^{GATT}~~GAT~~ violations had been filed
 16 and it has affected trade negotiations across the board.
 17 Three and a half cents.

18 Natural gas reform is still important. OCS ^{is}~~ise~~
 19 obviously ^{is}~~very~~ important. We must settle that dispute on
 20 outer continental shelf. A good proposal has been put
 21 forward by the Interior Department, certainly a reasonable
 22 one. There's no reason we can't get Windfall Profit ^S~~A~~ Tax
 23 ^{repealed}~~repeal~~.
 24 ^{ANWR}~~ANDWAR~~, a major environmental debate is facing up
 25 in ^{ANWR}~~ANDWAR~~. This is not something that will be easy to do.

1 elements of the Oil and Gas Revitalization Act -- some of you
2 may have gone over this in detail in December when Phil
3 ~~Graham~~ ^{Gramm} put it up, some of you might not have. They were
4 talking about EPA regulations on drilling muds, production
5 waste, volatility standards in fuels. Simple things. He hit
6 a brick wall.

7 ~~The~~ ^{On the} report that we put out, we are making great
8 effort to do two things. One, have the statistical base in
9 our report in agreement with the industry figures so that we
10 are talking from the same playing field. Then, we are trying
11 to put out a number of options with corresponding data; what
12 do we get out of those particular options if they are
13 enacted? What does it cost us as a country? What does it
14 cost us in GNP, what does it cost us in tax revenue, trying
15 to weigh cost benefit analysis. I think that we have plugged
16 everything in this. If we haven't, I expect to hear about
17 it, and I am sure that I will. But, I believe the report is
18 very credible.

19 We need to do some more economic review on some of
20 these before it comes out. But, basically, we have looked
21 at, I think, about everything that's been discussed.

22 Everything will be put in this report. Some of the ones I
23 might mention that are going to be reviewed are, obviously,
24 oil import fee, variable ^{floor} floor will be looked at. Faster
25 tax recovery of G&G costs, a potential area we might do some

1 good. Certainly cost benefit, ⁱⁿ one of the better options,
2 several proposals for changes ~~and~~ depletion allowances that
3 are aimed at both encouraging capital formation and to
4 increase exploration activities overall. We need to look at
5 those options. I think some of the other ones, allowing
6 percentage depletion for transferred properties, ~~the~~ relaxing
7 net income limitation, allowing tax credit for domestic oil
8 and gas exploration, development and investment, price ~~flow~~ ^{floor}
9 You know most of them.

10 Each option that we put forward, I think ~~most can~~ ^{must}
11 meet the test of energy security. Take an option like a gas
12 tax. I think it's fair to say that, for every penny of gas
13 tax you put on a gallon of gasoline you would probably get a
14 billion dollars to the National Treasury. I'm not sure that
15 ~~is~~ ^{it's} an energy security option. I think it's more of a revenue
16 raising option. I don't know what that does for you and your
17 particular industry, ~~but~~ I suspect very little. I guess, the
18 ultimate goal is to raise the quality of the discussion that
19 is taking place if we are going to address this problem. I
20 know that Ralph said it a minute ago, but we need to do an
21 education process to the public on what is at stake, number ~~one~~ ^{one}
22 and then, come up with the options to solve it.

23 It was recommended that I re-hear Fred's remarks.
24 I have, I think, read about everything that you've written,
25 Fred. I find it very educational to me and it has been very

beneficial to me in my job. I congratulate you ^{on} being outspoken on these issues. I think you have brought the debate home on a number of these issues, and that needs to be done. But, I think more of that from experienced people in this industry and experienced people in the energy sector who are truly concerned about this project. Another way, such as that article this morning in the Wall Street will be very helpful.

I'm not sure that all of us have the answers. I certainly don't have all the answers, but I am willing to work toward a solution of these problems, and you have to know that. This Administration is willing to work toward a solution. We have, in my estimation, never lost sight of the objective of a strong oil and gas industry. I have had people come into my office saying that the man ^{we elected} ~~re-elected~~ has left us. He has not left you. I don't think these choices are any harder for a Reagan Administration than they would be for any other Administration.

We have some very difficult times that we are facing now. I think the nation needs to recognize that we owe this industry a tremendous debt. You have, throughout the history of this country, been what I would call a backbone of the prosperity, of the economic engine that has built the industrial capability that we have in this country. So, in ^{action} ~~inaction~~ now -- I guess I don't have any

1 specific words of encouragement today except that inaction
2 now, in my estimation, would be a tremendous mistake.

3 I think, Ralph, that's what I have to say on the
4 way of off the cuff remarks. I would be happy to try and
5 address any of the questions that you may have.

6 SPEAKER FROM THE FLOOR: Mr. Secretary, BRUCE
7 CALDER. I wonder if you could tell us, in your meetings with
8 the President, just give us an appraisal of where you think
9 the oil industry problems stand with him as opposed to a lot
10 of other problems that he has to handle?

11 SECRETARY HERRINGTON: Well, you know, the problems
12 that any President of the United States, whether it's Ronald
13 Reagan or anyone else, faces our huge ~~cross~~^{across} the board. We
14 have had many meetings on this with Secretary Baker, with the
15 Vice President, with the President. We have brought down
16 Congressmen and Senators from the oil producing states. It
17 is not an issue that has escaped his notice, I guarantee you.

18 We have met in the oval office. We've had cabinet
19 level meetings on this. I would have to say it's very high
20 on his agenda, ~~on~~ the energy security, otherwise he would not
21 have asked for this particular report that we are going to
22 hand him next month.

23 The report is lengthy. It looks at every
24 possibility that we can come up with on options to aid what
25 is a disaster. You can't characterize it any other way. The

1 report is what, Bill; about four hundred and fifty pages?
 2 It's similar in size to yours and it has, I think, a very
 3 good discussion.

4 The President will obviously want to hear about it
 5 personally. We'll probably have a couple of cabinet meetings
 6 on it. It will get substantial attention in the
 7 Administration.

8 Bob?

9 SPEAKER FROM THE FLOOR:

ROBERT PARKER
 [Unidentified]

10 Mr. Secretary, I've been present when the President said what
 11 you said he said.

12 SECRETARY HERRINGTON: Yes.

13 SPEAKER FROM THE FLOOR:

ROBERT PARKER
 [Unidentified]

14 That is, we must never again be dependent upon an unreliable source
 15 for our energy. My problem is that we are already there.

16 I'm not bringing this ^{up as a} ~~for~~ criticism, I'm bringing it ^{up in} ~~as a~~

17 recognition. ^{that there's} ~~There's a~~ terminology here in favor of ^{forces} ~~forces~~

18 ^{indeterminative what we're} ~~(indiscernible)~~ We're talking about ^{"may" or "might" and I think} ~~a (indiscernible)~~. ^{it's} ~~It~~

19 ^{made it well in hand.} ~~it's "will" and "has."~~ This is what I'm having a difficult time with

20 ^{and I know you and others in the Administration are too.} ~~You put the bill of time. I know you're working both~~

21 ^(indiscernible) ~~and~~

22 ^{a big segment} ~~We've lost to Big Seven~~ of our U.S. energy already

23 ^{-- of us} ~~and many~~ feel unnecessarily. You know that it's much larger

24 than many had predicted. As we have ^{lost} ~~all~~ major segments of

25 capability, at least fifty percent.

If the whistle were to

Now, here's the whistle we'll blow tomorrow to
 restore ~~our~~ ^{to our country,} energy security ^{could} ~~guard~~ I am not sure we ~~can~~ ^{could} do
 it, and I'm not a loser ^{and I believe in a free America.} of this type. Believe me, you

~~learn~~ But those events that have already occurred and ~~are~~ ^{others}

~~may occur, and~~ ^{may occur, and} ~~mandatory~~ ^{concerns} it shows me how we express ourselves. ^{here} When we did

have the ~~(indiscernible)~~ ^{4,500 rigs running,} it took every rig to keep ~~these~~ ^{US EVEN} these? We

never did ~~guage~~ ^{gain} them? We just got back ~~and~~ ^{and} ~~held~~ ^{EVEN} these? and

now we ~~cannot~~ ^{could not} make twenty-five hundred ~~readers~~ ^{rigs} in the world

today and priority for ~~(indiscernible)~~ ^{if the price were \$100 a barrel. It cannot be done.}. He did not resign.

We have lost all the infrastructure that ~~made~~ ^{makes} it possible

even for those of us who drill to drill for those of us who

need drilling. ~~Active drilling is gone~~ ^{That capability has} and I don't believe it will
~~come back very quickly and I don't believe the 800,000 barrels per day will come back.~~

~~(indiscernible)~~ I don't think it's something we have an

option to ~~currently let go on the back burner~~ ^{of turning back on.} It's that

kind of terminology that sometimes blackens the report. ^{lose} In meetings I've
~~been sitting in on, the President reacts very, very favorably, because he~~
~~(indiscernible) knows the facts on those issues.~~

I think we'll ~~use~~ ^{lose} much more in the next two years. "Will" lose;
 it isn't "might" lose. We are going to lose oil production and capability.
~~will (indiscernible). It isn't likely, we are going to do~~

~~what Wilbur does and capability~~

~~And finally,~~ I think the situation is serious now, not one that

might come, ~~hoping (indiscernible) and use words~~ ^{I'm hoping the report can say that and use words well.} I cannot

tell you how to write your report ~~(indiscernible)~~, but I

guess I'm ~~pressing~~ ^{impressing} you, Mr. Secretary, ~~for~~ ^{with} the same thing

that you have infinite knowledge of. ~~The~~ ^{and I have said many times.} things seem to be

running about two years behind what's presently happening. I

1 guess I'm not asking you a question, I'm making a speech, but

2 I'm asking your assurance that ^{if we join our forces,} ~~(indiscernible)~~ we can convey

3 ^{the fact} ~~it back~~ that much of the things that we ^{thought would be happening, etc. And} ~~(indiscernible)~~
^{the future for the United States is very grim.}

4 SECRETARY HERRINGTON: I appreciate those, and I

5 don't disagree with anything you said. It's been brought

6 home to me by a number of you and, I think, ^{also} in those meetings

7 with the President, the other fact that there is a ten year

8 lead time on some of these activities.

9 Most of the reports and most of the studies,

10 whether you take the best case or worst case, ^{be} ~~meet~~ it middle

11 case, show oil problems in the mid-1990's. All of you, as

12 professionals in your industry, as technical people, know

13 that it takes ten years and have been very vocal on this. It

14 takes ten years to build an infrastructure. So, we are

15 sitting here in 1987 debating whether we drill into a

16 potentially twenty-five ^{billion} barrel field. That is short sighted

17 if we don't. I think that is one of the things that has to

18 be straightened and stressed by you.

19 Any others? Thank you. Yes?

[C. M. McLEAN]

20 SPEAKER FROM THE FLOOR: [^] Mr. Secretary, I think

21 what ^B Rob was trying to get across is, do you think, in the

22 words of Bob ^{Mosbacher} ~~Baumback~~ that the work --

23 Well, let me start that a different way. Do you

24 think that the President is prepared now, having facts before

25 him from his ^{committee and from this committee, he will be} ~~community~~ do you think you're going to be

1 prepared to convey to the American public our feelings, as
 2 Americans in the words of Bob ^{Mosbacher}~~Baumback~~, to convey to the
 3 public what the problem is. Not necessarily what the
 4 solution is at this point in time, but you have to identify a
 5 problem before you come up with a solution. Unfortunately,
 6 the ^{public does}~~problem is~~ not ^{know the}~~a~~ security problem. It's just not out
 7 there yet.

8 Me going back and telling the people in Louisiana
 9 what's going on is like ^{preaching to the choir}~~three feet wide~~. But the great
 10 communicator ^{telling}~~were to tell~~ the people of the United States
 11 what's going on in the world, ~~that's what~~ gets through.

12 SECRETARY HERRINGTON: Well, I can't give you a
 13 definitive answer, obviously, because we haven't ^{to}~~transmitted~~
 14 the report. I know which way he thinks and how he's leaning
 15 on this issue, and it's right in line with what you said.
 16 What action the White House will elect to take at that point,
 17 I simply am not in a position to tell you. I know what I'm
 18 going to recommend, that this issue be brought out.

19 Yes?

20 SPEAKER FROM THE FLOOR: HAROLD PRUNER,
 21 Mr. Secretary. As a follow up to that, and a recommendation
 22 that may be some solution. It seems to me that the education
 23 of the public is a joint industry and Governmental
 24 responsibility. Certainly, this ^{report is well done. It}~~has worked very well down in~~
 25 documents the crisis and that sort of thing. Could the DOE

1 actually allocate funds ^{and} ^{or} time ^{of} ~~to~~ the personnel who
 2 helped us compile this report to, in fact, schedule meetings
 3 regionally around the country. ^{to} ~~We could help~~ educate the
 4 public.

5 SECRETARY HERRINGTON: Well, I think we'd be
 6 willing to look at it. But, I think more, we would be
 7 willing to look at it on the basis of an energy security
 8 study that we put out. I wouldn't mind wrapping these two
 9 together.

10 Whether we could actually go out with funds for
 11 public meetings on the NPC report, I don't know whether it's
 12 legal or not. I'd have to find out. But, it's not a bad
 13 idea.

14 I noticed you had ~~been at Johnsonhead interview~~
 15 ^{recently that} ~~hearings down in Louisiana race. Atlanta got national~~
 16 ~~exposure.~~ You had, what -- six or seven thousand people turn
 17 out; that kind of thing. These Op-Eds that appear ⁱⁿ ~~the~~ Wall
 18 Street Journal, I think ^{are} ~~they're~~ beneficial.

19 SPEAKER FROM THE FLOOR: I'm FRANK PITTS,
 20 ^{an independent} ~~(indiscernible)~~ from Dallas.

21 Recently, I was on a panel and ^{to prepare} ~~prepared~~ my paper
 22 ^{by} ~~For~~ the panel discussion, I had to get information about what
 23 ~~the various countries of the world would have potential oil~~
 24 ^{and} ~~in the natural path of production.~~ ^{gas} ~~We're doing,~~ ^{we're}
 25 ~~considering doing~~ to encourage drilling activity in their

1 countries. ^{Well our} ~~A loud~~ industry here in the United States is on
2 the skids. ^{Very rapidly.}

3 Other countries, I've found on my investigation,
4 were considering ^{le} some had already placed into being,
5 encouragement in the form of taxes and various other things,
6 ^{for} ~~ore~~ drilling activity in their country. I hope we don't wait
7 too long and let our industry here continue to be dismantled
8 at the rate it's currently being done without doing
9 something.

10 SECRETARY HERRINGTON: I would agree with you.

11 Ralph, thank you very much. I appreciate it.

12 CHAIRMAN BAILEY: Well thank you very much,
13 Mr. Secretary. On behalf of the entire Council we certainly
14 want to express our appreciation for your comments and your
15 presence here this morning.

16 We have several administrative matters before us.
17 The first is a report from the Agenda Committee and A.V.
18 Jones is Chairman of the ^{Committee} Agenda and he will present his
19 Committee's recommendations. Mr. Jones?

20 MR. JONES: Thank you, Mr. Chairman. Ladies and
21 gentlemen, as he stated this morning, Secretary Herrington
22 has requested the National Petroleum Council's advice and
23 recommendations on ~~the~~ Petroleum inventory, storage and
24 transportation capacities. A copy of this request letter,
25 dated February 20, 1987, is attached to the Agenda Committee

Thus?

1 discussion paper in the Council members' information
2 packets. Additional copies of this will be available outside
3 the room following our meeting.

4 Specifically, ~~the~~ ^{requests the Council} Secretary ~~requires that the~~
5 ~~request be cancelled~~ to undertake a new study updating
6 previous National Petroleum Council reports on this subject
7 as necessary. He ^{asks} ~~asked~~ that emphasis be given to a
8 re-examination of minimum operating inventory levels. The
9 location of storage facilities and availability of
10 inventories in relation to local demand and the capabilities
11 ^{of} ~~and~~ distribution networks to move product from refining
12 centers to their points of consumption, particularly during
13 periods of stress.

14 Pursuant to Section 7.1 of the Articles of
15 Organization of the Council, this request was referred to the
16 Agenda Committee for consideration as to whether the request
17 is proper and advisable for the Council to undertake.
18 ^{In considering} ~~Considering~~ this request, the Committee made the following
19 observations.

20 The Council has conducted numerous previous studies
21 of inventory, storage and transportation capacities. In its
22 1984 report entitled Petroleum Inventories and Storage
23 Capacity, it was the tenth Council report on the subject.
24 Additionally, the National Petroleum Council has issued
25 numerous reports on all facets of petroleum transportation,

1 with the latest being the 1979 report, Petroleum Storage and
2 Transportation Capacities.

3 The most recent inventory data in these reports are
4 from early 1983, and the transportation data are from 1978.

5 There has been major changes in the production and
6 transportation of crude oil and natural gas ⁱⁿ and refinery
7 operations, and in the petroleum products distribution
8 networks and the markets they serve. Previous minimum
9 ^{inventory level} operating estimates may no longer be valid and the
10 inventories now tend to be kept closer to refineries rather
11 than at points of end use. Additionally, major pipelines in
12 some areas have been closed or converted to other uses, while
13 new ones are being built in other areas.

14 Finally, while the National Petroleum Council's
15 prior studies are the most current comprehensive treatment ^S of
16 petroleum storage and transportation that are available, they
17 are now outdated. Proper updating of this information can
18 only be done by the industry. Accordingly, the Agenda
19 Committee finds this request proper and advisable for the
20 Council's consideration, and recommends that the Council
21 agree to undertake a comprehensive new study on petroleum
22 inventory, storage and transportation capacities, as
23 requested by Secretary Herrington.

24 Mr. Chairman, this complete ^S the report of the
25 Agenda Committee and I move it be adopted by the membership

1 of the National Petroleum Council. Thank you.

2 CHAIRMAN BAILEY: Thank you, A.V. I have a motion
3 to adopt the report of the Agenda Committee. Do I have a
4 second?

5 Is there any discussion?

6 (No response.)

7 CHAIRMAN BAILEY: All those in favor, say 'aye'.

8 THOSE PRESENT: Aye.

9 CHAIRMAN BAILEY: Opposed, 'no'.

10 (No response.)

11 CHAIRMAN BAILEY: The motion is adopted. But, as I
12 call for this vote and have this motion placed in front of
13 you ^{all}, I want to call your attention that, in accepting
14 these ^{Studies} ~~study~~ you are agreeing, as you've done in the past, to
15 provide the personnel and the information necessary to
16 complete the assignment. A lot of work is involved and as we
17 undertake these reports I think it is important that, ^{WE} as we
18 always have in the past, do ^{them} ~~the~~ thoroughly and be fully
19 responsive to the undertaking. ^{On the near future, under Ed Cox's leadership,} ~~Council members will be~~
20 ^{a committee of the Council will be} selected to begin this assignment.

21 The Council members support the NPC operations in
22 two ways. By the dedication of many hours of their time and
23 expertise, and that of their company personnel ^{these} to ~~the~~ study
24 efforts, and by your financial contributions. I would like
25 to thank each and every one of you for ^{your continued} ~~our continuing~~

1 support, particularly during these very difficult times ^{for} ~~the~~
2 this industry.

3 (The motion to adopt the Agenda
4 Committee's report by the Council
5 was adopted.)

6 The Council's ^{Finance} ~~Financial~~ Committee met yesterday and
7 John Hall, chairman of that committee, will now present his
8 report. Mr. Hall?

9 MR. HALL: Mr. Chairman and members of the Council,
10 the Finance Committee met yesterday to review the financial
11 status of the Council. We reviewed the calendar year 1986
12 financial statements and I am pleased to report that the
13 financial condition of the Council is sound.

14 At our last meeting, we recommended and you
15 approved the calendar year 1987 budget of one million six
16 hundred forty-five thousand dollars. As I noted to you at
17 that time, that's eleven percent below last year, and a
18 twenty-eight percent reduction below the 1985 budget. So,
19 the NPC is doing its part in contributing to ~~the~~ cost
20 reduction that we need in the industry.

21 This budget includes funds to complete the
22 preparation and printing of the study you approved today and
23 provides funds to undertake the additional study that was
24 approved this morning. But, we're not recommending,
25 therefore, any increase in ^{the} ~~this~~ budget because the funds are

1 already there. So, our budget will still be one million six
2 hundred forty-five thousand dollars.

3 We then discussed the level of member contributions
4 required to support the budget. The Committee recommends
5 that member contributions for the year be the same as last
6 year. We propose that any additional funds be taken from the
7 contingency, if necessary.

8 Thank you, Mr. Chairman, that concludes my report.
9 I move that the Finance Committee report be adopted by the
10 Council.

11 CHAIRMAN BAILEY: Thank you, John. I have a
12 second. Any discussion?

13 (No response.)

14 CHAIRMAN BAILEY: All those in favor, say 'aye'.

15 THOSE PRESENT: Aye.

16 CHAIRMAN BAILEY: Opposed, 'no'.

17 (No response.)

18 CHAIRMAN BAILEY: Thank you, the report is adopted.

19 (The motion to adopt the report
20 of the Finance Committee by the
21 Council was adopted.)

22 CHAIRMAN BAILEY: Our final report this morning is
23 from the Nominating Committee. The Committee met this
24 morning, and Collis Chandler, the Chairman of the Committee,
25 will now present their recommendations.

1 MR. CHANDLER: Thank you, Mr. Chairman. The
 2 Nominating Committee of the National Petroleum Council met
 3 this morning and agreed on the following nominations for
 4 officers and chairman and members of the Agenda and
 5 Appointment Committees of the Council.

6 First, however, let me thank the outgoing chairman,
 7 or the retiring chairman, of the Appointments Committee, Ted
 8 ~~Brutus~~ ^{Burtis}, the outgoing chairman of the Agenda Committee, ^E A.V.
 9 Jones, who has served us since 1981, and you are ^{the} outgoing
 10 chairman of the Council.

11 For NPC Chairman, Mr. Edwin L. Cox. ^{NCP} Vice
 12 Chairman, Lod M. Cook.

13 For the Agenda Committee, John Bookout. Bill Carl,
 14 John Carver, myself, ^{Hubie} ~~Eddie~~ Clark, George Keller, Jim
 15 Ketelsen, Frank McPherson, Bob Mosbacher, Larry Rawl, with
 16 Chick Williamson serving as Chairman.

17 ^{For} ~~One~~ the Appointments Committee, Jack Allen, David
 18 Dorn, Jim Emison, John Hall, Fred Hamilton, John Haun, A.V.
 19 Jones, Dick Morrow, Don Simmons, Joe Williams and Fred
 20 Hartley serving as Chairman.

21 Mr. Chairman, this completes the report, and I move
 22 that the Council elect the foregoing for 1987.

23 CHAIRMAN BAILEY: Thank you, ^{Collis} ~~Charles~~. I have the
 24 motion, do I have a second? I have a second. Is there any
 25 discussion or questions? All those in favor say 'aye'.

1 THOSE PRESENT: Aye

2 CHAIRMAN BAILEY: Opposed, 'no'.

3 (No response.)

4 CHAIRMAN BAILEY: Then, the report is adopted.

5 (The motion to adopt the reports
6 of the ^{Nominating} ~~Appointment and Agenda~~
7 Committees ^{of} ~~by~~ the Council was
8 adopted.)

9 CHAIRMAN BAILEY: Well, let me say that it has
10 certainly been a real personal satisfaction for me to have
11 served the Council for the past two years, and your support
12 has been greatly appreciated. I think, as I said earlier, I
13 think the Council does continue to fulfill its ^{assigned} ~~designed~~ role
14 and provides valuable assistance to the Government.

15 I want to also tell you that I think we have an
16 excellent professional staff here in the Council. I think
17 Marshall Nichols and his very small group are very hard
18 workers and ^{do} ~~did~~ extremely well in conducting the work of the
19 Council. They work very well with the Department of Energy
20 and, as you can see, they do get the job done.

21 So, now it is my pleasure to pass the gavel on to
22 our good friend Ed Cox, and I think that all of you would
23 agree with me that Ed's many years of accomplishment within
24 this industry and his broad knowledge of the industry and its
25 leadership will serve both the Council well, and also Ed.

1 Ed, do you have any comments?

2 MR. COX: Thank you very much. I just wanted to
3 second what Collis Chandler said about the job that's been
4 done by our Chairman. Those of you who have been intimately
5 involved ^{with} ~~in~~ the workings of the Council over the last couple
6 of years know the complete dedication that Ralph Bailey has
7 given to this Council, and he has done a superb job. He's
8 always been there with thoughts, ideas and initiatives, and I
9 think that he deserves another round of applause. I just
10 want to say thank you, Ralph, for a great job.

11 CHAIRMAN BAILEY: Well, thank you very much.
12 That's very much appreciated. Well, this brings us to the
13 end of our formal agenda. Does any Council member or anyone
14 else in the room have any other matters they'd like to raise
15 at this time?

16 Yes, sir?

17 SPEAKER FROM THE FLOOR: Excuse me, Ralph, but on
18 the point you made with regard to education of the public.
19 If we don't recognize the report was jointly prepared, and
20 then put the Government in the position of assisting us in
21 educating the public. In that regard, I'd like to suggest it
22 at this late date, and since there seemed to be a good
23 consensus and the Secretary is saying he's going to help if
24 he finds out he's able to do that, that we put a p.s. on the
25 letter which asks them to be involved in a joint effort to

1 educate the public.

2 I think the public deserves the right ^{with} ~~for~~ us having
3 ^{defined} ~~to find~~ the crisis ^E that ^{we've} ~~we~~ had, to ⁱⁿ ~~give a~~ public forum to ask
4 us, the industry, and the Government what they intend to
5 do. I think there should be some effort made jointly by the
6 industry and the Government.

7 CHAIRMAN BAILEY: Well, thank you for those
8 comments. Obviously, it does no good to produce a report
9 unless it, in turn, produces action. The education of the
10 public is a key part of that; even educating the Government,
11 as has been said in this room this morning, is a key part of
12 that. I think we should go as far as we can within our
13 charter in that direction, and that's something I'm sure Ed
14 and his group will consider as we go forward. We certainly
15 consider the request that we put a p.s. on the letter. Thank
16 you.

17 Well, there being no further business --

18 SPEAKER FROM THE FLOOR: Mr. Chairman?

19 CHAIRMAN BAILEY: Yes, sir?

20 SPEAKER FROM THE FLOOR: FRED HARTLEY. On that
21 point of educating the public, I'd like to bring to your
22 attention an experience that I had where I was a speaker on
23 the platform at an energy issues forum of the NAM, with the
24 staff of the Resource Committee, as you know.

25 I was absolutely amazed to find out the intensity

1 and the activity of the manufacturing associations,
2 especially the big companies. If it happens again to the oil
3 industry and any efforts on our part to do the things that
4 we've been talking about this morning, I think that it's going
5 to behoove us to get the principles of our organization,
6 those organizations, to see if we can't get them off our
7 back, because they are determined to keep energy costs down
8 to an absolute minimum in spite of the fact that we know that
9 energy costs today are not reflective of the costs that are
10 required to maintain the vital industry.

11 I must say that it came as a hell of a shock to me
12 that this was a status exempt, and their property adding
13 machine is pretty powerful. They certainly will be, unless
14 we convince them otherwise, unless we confuse them in some
15 way, they're going to be working against the interests of the
16 oil industry and the National Petroleum Council.

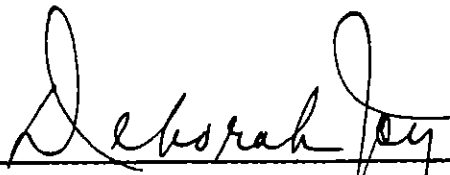
17 CHAIRMAN BAILEY: Fred, thank you very much. There
18 being no further business, I would like to announce that I've
19 asked Ed Cox and Chuck Shultz to join me here at the head
20 table for just a few minutes to respond to questions from
21 members of the press on this morning's meeting and on the
22 report.

23 So, do I have a motion for adjournment?

24 SPEAKER FROM THE FLOOR: I make the motion.

25 CHAIRMAN BAILEY: Second?

I certify that the foregoing is a correct transcript from the electronic sound recording of the proceedings in the above entitled matter.


Deborah Joy, Transcriptionist

February 25, 1987